CREDIT GUARANTEES

PROMOTING PRIVATE INVESTMENT IN DEVELOPMENT

YEAR IN REVIEW 2007

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Letter from the USAID Administrator

The key to truly sustainable economic growth lies in harnessing the potential of local resources that already exist. We at USAID believe that the best way to increase wealth in developing countries is to support a growing private sector that can provide opportunities to its people for savings and investment. As President Bush stated, "…The role of government is not to try to create wealth... The role of government is to create an environment in which people are willing to risk capital, to take risks; an environment in which people are willing to realize their dreams." USAID is committed to supporting countries as they strive to create an environment that matches local financing needs with domestic financial resources.

In only eight years, USAID missions around the world have used the Development Credit Authority to structure almost 200 partial credit guarantees in 54 countries. Nearly $1.3 billion is now available to local borrowers to finance various investment needs such as water and sanitation, education, health, energy efficiency, microfinance, agriculture, and housing. USAID missions use these risk sharing guarantees to encourage local lenders to invest in their own backyards. Some direct results of these partnerships are the expansion of local financial services, which do not rely on donor grants or loans, and stronger financial institutions that can take the necessary risks to grow their economies.

We at USAID are always looking for new ways to encourage the growth of the private sector in developing countries. We believe that long-term economic growth is attained by mobilizing local savings and private investment. The harnessing power of these public-private partnerships realizes local potential and uses the wealth that already exists in these countries, grows it, and assures its sustainability. USAID is increasing access to credit to enable families, farmers, towns, schools, and entrepreneurs to access the resources needed to attain their goals. The results are truly exciting, as you will see from the cases in this booklet.

I invite you to read this Year In Review and join us in using this unique tool to mobilize private financing for transformational development.

Henrietta H. Fore

Administrator

United States Agency for International Development

Development Credit Authority (DCA)

Around the world, USAID uses the Development Credit Authority (DCA) to mitigate the perceived risks of lending to underserved clients. In 2007, USAID structured 29 guarantees in 16 countries, mobilizing $350 million in private financing to targeted sectors. These guarantees offer several distinct advantages:

Risk-sharing partnerships
USAID guarantees cover up to 50% of a private lender's risk in providing financing. USAID couples the guarantees with training and technical assistance to both borrowers and lenders to maximize developmental impact.

Mobilization of local wealth
The strength of a guarantee is that it harnesses resources that already exist in a developing country, opening sustainable local channels of investment that do not rely on outside grants or other sources of funding.

Demonstration effect
Guarantees can demonstrate to partner institutions that new sectors and products are viable and profitable. Upon seeing that success, other financial institutions often follow, resulting in increased competition and better loan terms for borrowers.

Agency resources maximized
USAID leverages an average of 30 dollars of private financing for each dollar spent by the US government.

Partner financial institutions use guarantees to mitigate the perceived risks of developing different loan products, or of expanding into unfamiliar sectors or geographic areas. Other DCA guarantee benefits to partner institutions are:

Reducing collateral
Banks in developing countries often require 100-200% percent of the value of the loan as collateral. Low-income entrepreneurs, for example the owner of a small or medium-sized enterprise, often do not possess that amount of property. With a partial guarantee, lenders can lower collateral requirements and introduce lending based on cash flow, or secured by untraditional collateral.

Extending loan tenors
USAID can structure guarantees to extend repayment periods, enabling more borrowers to afford equipment and other capital investments. For example in Nigeria, Zenith Bank introduced a 10-year mortgage with the support of a DCA guarantee to low and middle-income homebuyers.

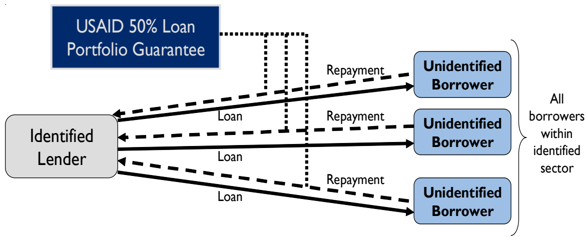
Reducing regulatory risk
USAID partial credit guarantees can be used to mitigate regulatory risk. In South Africa for example, USAID provided a guarantee to cover potential defaults resulting from a failure of the Government of South Africa to pass pending legislation. This legislation will rezone land, enabling the low-income housing developer to build affordable homes. Without the guarantee, private investors would not be willing to take on the risk associated with investing in the housing development.

The innovation of partial credit guarantees is the use of local wealth to create more local wealth. Instead of simply giving a loan or grant, USAID is creating economic sustainability by encouraging local markets to function more competitively and efficiently with their own resources. By reducing the perceived risk of a transaction, credit guarantees allow local financial institutions to better serve their local markets and allow borrowers to achieve their goals.

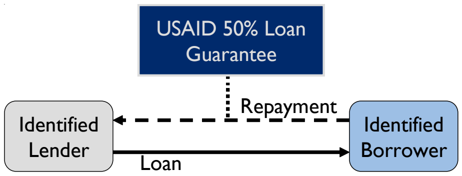
This road in Serbia is being repaved with funding supported by a USAID credit guarantee

Types of DCA Credit Guarantees

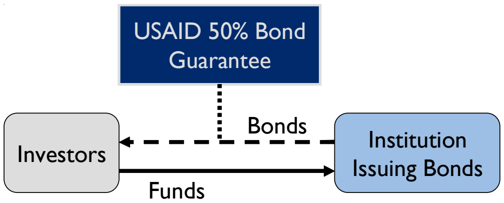
USAID partial credit guarantees are backed by the full faith of the US Treasury and are structured in four different ways: through a Loan Portfolio Guarantee (LPG), Loan Guarantee (LG), Bond Guarantee (BG), or Portable Guarantee (PG). While each of these mechanisms varies in structure, all share the same goal of encouraging local private investment. By mitigating the risk faced by issuing a loan, these guarantees encourage financial institutions to make financing available to underserved borrowers in a wide range of sectors including health, education, microfinance, and agriculture.



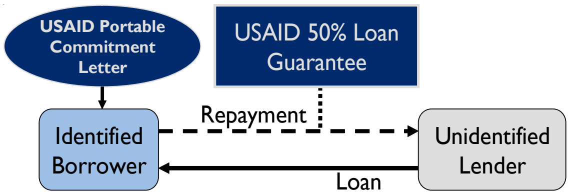
A **Loan Portfolio Guarantee (LPG)** involves one lending institution and multiple borrowers that are part of a borrower group specified by USAID. The purpose of an LPG is to encourage a lender to extend credit to areas that are underserved by financial institutions.



A **Loan Guarantee (LG)** involves one transaction between an identified lender and borrower. The lender is unwilling to extend the loan without the risk-sharing guarantee. USAID supports the borrower because the credit is for an activity that has a developmental impact.



A **Bond Guarantee (BG)** ensures investors in corporate and/or sub-sovereign bonds of both recovery and repayment. The guarantee often enables the issuer to obtain a higher credit rating, and thus, access less expensive and longer term financing.

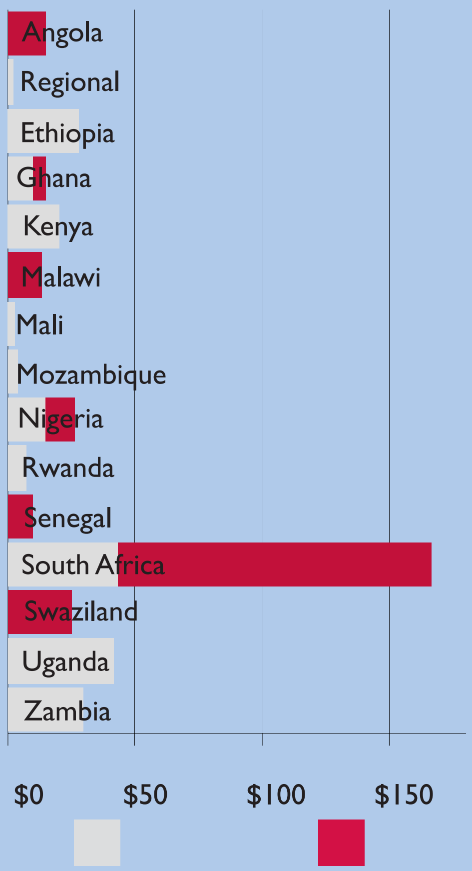


A **Portable Guarantee (PG)** is similar to a loan guarantee except the lender is not identified. USAID provides a commitment letter to the borrower, which allows the borrower to shop around for the best loan terms. Once the lender is identified and agrees to the terms of the guarantee, the letter becomes a loan guarantee.

AFRICA

Total Credit Made Available Since 1999: $405 million

Per Country in millions:



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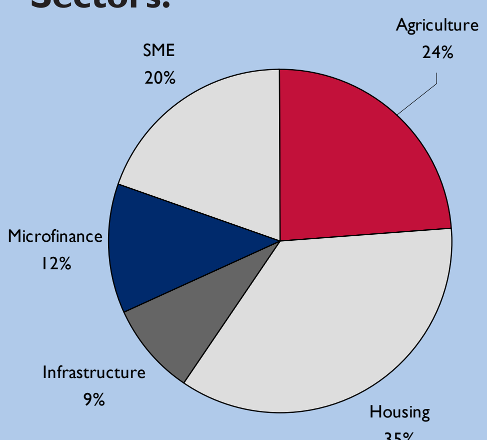


2007 Guarantees

Working with Chevron

Angola is in the process of recovering from a civil war that lasted more than thirty years and ravaged the economy. The agricultural sector, which accounts for the livelihoods of approximately 65% of the population mostly through subsistence farming, was especially hard hit. Before the war, Angola was one of the largest agricultural exporters in Africa. Today, the economy is largely dependent on extractive resources, which is not labor intensive. The government of Angola would like to rebuild its once strong agricultural sector that employed large numbers of people. USAID's $15 million loan portfolio guarantee, developed with help from Chevron, will diversify the economy by creating market linkages in the agricultural sector so that small scale farmers can sell their crops to larger agricultural processors. This guarantee will improve market efficiency and increase income for those involved in Angola's farming sector.

Photo: USAID/Kathleen Wu

A typical house in South Africa that will be available for low and middle income households due to a USAID credit guarantee

Housing in South Africa

South Africa is the largest economy in sub-Saharan Africa. But income disparity remains an ever-growing problem, resulting in many being unable to afford basic necessities, including housing. To address the housing strain, USAID structured a $69 million partial loan guarantee so that more low and middle income South African households can access finance in order to rent, own, or rehabilitate their housing. Because of this guarantee, more South Africans will be able to afford to live in safe and secure housing instead of residing in slums.

Photo: USAID

More Angolan famers will be able to use convoys like this to sell their goods at markets

Existing Guarantees

Promoting Rwandan Exports

Rwanda's agricultural sector has grown significantly in the past decade, but still faces financing challenges. While agriculture is the largest sector of Rwanda's economy, it received only 4% of direct bank credit in 2005, highlighting the mismatch between credit supply and demand. In order to address this discrepancy and increase access to credit for rural agriculture, USAID has guaranteed over $7 in financing to support the agricultural sector in Rwanda, $2 million of which is targeted to support export-focused agricultural enterprises. These guarantees, complemented by technical assistance to increase the business development skills of Rwandan farmers, has provided agricultural businesses the credit and skills they need so that exports like Rwandan coffee can reach world markets, creating more jobs and income as the country continues to pursue its impressive economic growth.

Rwandan coffee producers find it easier to export due to financing from a USAID guarantee

Photo: USAID

Photo: USAID/Uganda

Ugandan businesswomen like these were able to access longer-term financing through the highly successful guarantee that began in 2002 and ended in 2007. The guarantee resulted in lower collateral requirements and increased financing for micro, small, and medium-sized borrowers.

Supporting Small Businesses in Uganda

In 2002, USAID signed loan portfolio guarantees with seven different banks in Uganda. Over the course of five years, more than $26 million dollars was lent to over 200 Ugandan micro, small, and medium-sized enterprises (MSMEs). To address the financing needs of these small businesses, the DCA guarantee was designed to complement an already existing capacity building program to assist microfinance institutions move up market and commercial banks move down market. The result was increased longer term financing to the smaller businesses. The combination of technical assistance and the DCA guarantee resulted in a successful facility with 100% utilization rates, meaning all the money available under the guarantee was used. The default rate on these loans was a mere 2%. The average loan size under the guarantee was $90,000 to businesses involved in the agriculture sector, which could then use the money to expand and grow. At the end of the guarantee, an evaluation found that the banks continued to lend without the guarantee, and that they did so with longer loan tenors and with lower collateral requirements. The guarantee provided the necessary push to encourage lending to underserved borrowers.

ASIA AND NEAR EAST

2007 Guarantees

Total Credit Made Available Since 1999: $235 million

Per Country in millions:

Sectors:

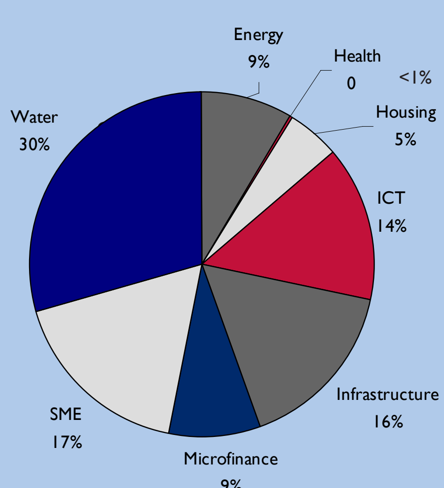


Photo: USAID/Jennifer Dostert

Traffic controllers like this one in India breathe air polluted by inefficient vehicle emissions. Upgrading such vehicles can now be financed through a global DCA guarantee

ICT in Egypt

In Egypt this past year, USAID embarked on a collaboration with Citibank, one of the world's largest financial institutions. Egypt's Information and Communication Technology (ICT) sector has contributed significantly to the country's overall growth, with the number of ICT firms quadrupling between the years 2000 and 2007. Despite this significant growth, the sector is largely underfunded, mostly due to the firms' insufficient collateral and the banks' unfamiliarity with the sector. To bridge this gap and address the market imperfection, a $34 million loan portfolio guarantee was designed so that Citibank Egypt and other partners can increase working capital loans to ICT firms. This guarantee not only signifies the beginning of an important relationship with Citibank Egypt, but will encourage the growth of a sector that is quickly becoming an important part of Egypt's economy.

Global Guarantee for Energy

In developing countries, factories and transportation systems rely on fossil fuels and outdated technology, resulting in harmful emissions to the atmosphere. Women and children venture into isolated and dangerous areas to collect firewood. Many countries place price controls on electricity, resulting in inefficiencies. For all these reasons, finding alternative sources of energy and more efficient uses of conventional energy is of paramount importance.

To promote the development of new and efficient uses of energy, USAID designed a $1.5 million loan guarantee to help E+Co, a U.S.-based clean energy investment company, access commercial financing. E+Co will use the capital raised to lend to ShoreBank, which will borrow from E+Co to invest in affordable energy services to households, businesses and communities around the world. Developing alternative energy sources will not only reduce carbon emissions, but it will also make energy safer and more affordable.

Promoting SMEs in Jordan

The Bank of Jordan has exceeded utilization expectations since it entered into a $5 million loan portfolio guarantee with USAID in 2005. A senior Bank of Jordan official stated that the guarantee has allowed the Bank to more aggressively target the small and medium enterprise (SME) market by extending loans to new customers who lack a credit history and to current clients who lack sufficient collateral for requested loan amounts. According to an external credit rating agency, other banks in Jordan have also begun to concentrate on expanding their SME loan portfolios, showing that DCA guarantees can indeed have a demonstration effect, encouraging other market participants to enter.
One SME that benefited from the USAID guaranteed loan is Ali Alkaabneh & Brothers Co., which manufactures and distributes snack food. Mr. Alkaabneh started his business in September 2005 after many years of working in the same field for a competitor. He began his company as a distributor and then used bank loans to launch and then expand manufacturing capacity to include ice cream products. After the Bank of Jordan provided his business with an initial loan to purchase a cold storage facility, it used the USAID credit guarantee to extend subsequent loans for several delivery trucks. Mr. Alkaabneh considered the access to this amount of financing critical to withstand a period of tight cash flow. Since then, he has been able to stay current with debt obligations while expanding the revenues of his business.

Photo: USAID

Ali Alkaabneh's snack shop in Jordan. Mr. Alkaabneh was able to secure financing to expand his snack business to include ice cream. USAID's guarantee in Jordan has encouraged other banks to lend to SMEs, evidence that DCA guarantess can have a demonstration effect for other market participants

Photo: USAID/Sashi Selvendran

Through a USAID guarantee, businesses were able to borrow money to restock inventory damaged by the Tsunami

Tsunami Recovery

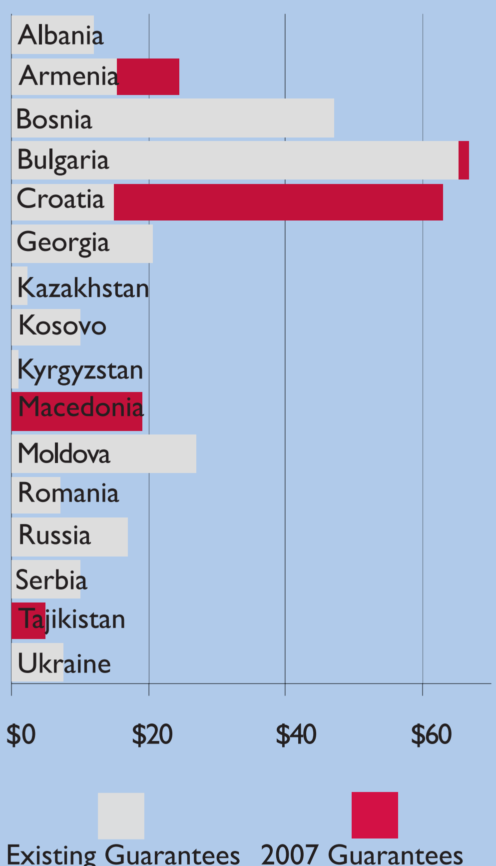
The tsunami of December 2004 affected Indonesia in a multitude of ways. In addition to the devastating loss of life, survivors had to deal with ruined infrastructure, destroyed housing, and loss of livelihoods. Livelihoods were further damaged by the earthquake of March 2005. To address the economic damage wrought by the tsunami and earthquake, USAID/Indonesia designed a loan portfolio guarantee with Bank Danamon to mobilize $16.4 million to micro and small enterprises nationwide, with forty percent of the facility targeted specifically to communities that were affected by the natural disasters. To date, 7900 loans have already been disbursed, totalling over $13 million. Most of these borrowers are microentrepreneurs who have used the increased financing to restock inventory and finance new construction. While disaster recovery grants addressed short term survival needs, the USAID guarantee was able to complement those grants with longer-term funding to achieve sustainable economic recovery.

EUROPE AND EURASIA

2007 Guarantees

Total Credit Made Available Since 1999: $339 million

Per Country in millions:



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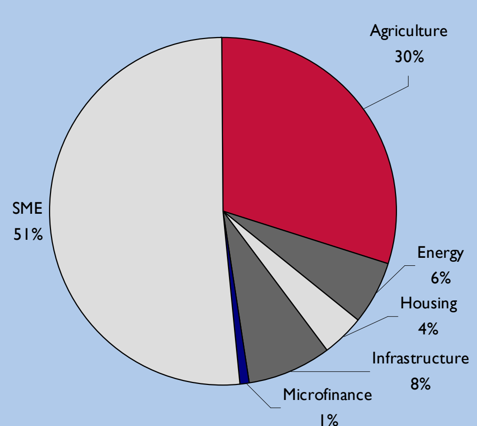


Decentralization in Macedonia

USAID guarantees can target change in multiple sectors. For example, in Macedonia, a new guarantee was designed to strengthen local government institutions and at the same time encourage energy efficiency. Municipalities in Macedonia have until recently had little autonomy and were unable to invest adequately in infrastructure and energy systems. In addition, government subsidies kept energy prices low and usage high. This system will become unsustainable when energy companies privatize, as envisioned in the near future. Under the new process of decentralization, more and more municipalities will be able to borrow and invest in local infrastructure development. To encourage this, USAID signed a $10 million loan portfolio guarantee so that local governments can borrow money for projects designed to improve energy efficiency and invest in local infrastructure, creating savings for the municipalities and also improving their ability to access credit in the future.

Photo: USAID/Sandra Goshgarian

Business Development in Croatia

To facilitate business growth in Croatia, regional local governments created Regional Development Agencies to facilitate local development based on USAID's DCA model. As key drivers of employment and growth, small and medium sized enterprises (SMEs) receive training and partial guarantees from these agencies to improve their access to credit. This is necessary because SMEs face constraints in securing credit for longer terms, often lacking the collateral required by banks. USAID has structured a loan portfolio co-guarantee with these regional agencies. With the co-guarantee from USAID, approximately $48 million will be available for Croatian SMEs to access medium and long-term financing, simultaneously helping the new development agencies gain credibility and supporting the SME sector that is so vital for employment and growth.

Existing Guarantees

Armenian Exports

Vertical value chain processing has become a profitable industry for some businesses in Armenia. By importing goods at low prices, then processing them within Armenia into a higher-value export, Armenia can capitalize on its technology and well-trained workforce. One example is Nicola International, an olive processing company. Nicola International, which as a new business faced difficulties in securing affordable loans, was able to secure a competitive loan from Cascade Credit Armenia, the beneficiary of a $12 million portable loan guarantee from USAID. Cascade Credit used its portable loan guarantee to attract investment through the issuance of commercial paper so that it could then on-lend these funds to Armenian companies like Nicola. This guarantee has helped lay the foundation for the development of a capital market in Armenia.

In Armenia, workers at Nicola International prepare olives for export to places such as Russia and Georgia. Cascade Credit was able to invest in this venture under a USAID guarantee.

Photo: USAID/Sandra Goshgarian

Iosif Oqruashvili with his new purchases bought with a loan guaranteed by USAID

Lending in Georgia

Georgian banks have limited experience with agricultural lending. Consequently, agricultural producers must put up large amounts of collateral and usually repay loans at interest rates above twenty percent. To reduce the risk perceived by Georgian banks, USAID signed a $6 million loan portfolio guarantee with Bank Republic to encourage lending to agricultural producers. One such producer is Mr. Iosif Oqruashvili, who owns a farm that produces hops, corn, wheat and alfalfa. Hoping to expand his operation into seed processing, Mr. Oqruashvili borrowed to purchase additional land and machinery to build a seed processing center. Because his loan was backed by a USAID guarantee, he was able to obtain a competitive interest rate. Mr. Oqruashvili's business expansion is one example of how credit guarantees are helping the Georgian economy grow.

Supporting Energy Efficiency in Bulgaria

A significant percentage of the high energy consumption in Bulgaria is due to wasteful energy use in municipal facilities and industries. Much of Bulgarian energy supply and infrastructure was built with inefficient Soviet-era equipment at a time when energy was significantly subsidized by the state. In order to address these energy-efficiency problems, it is critical that Bulgarian municipalities and industries make substantial investments in modern equipment and infrastructure improvements.

Over the past several years, USAID/Bulgaria has successfully funded two energy efficiency activities in Bulgaria, which have increased interest in energy efficiency among Bulgarian municipalities. The municipalities have organized themselves, with USAID assistance, to form the Municipal Energy Efficiency Network (MEEN), but commercial banks in Bulgaria are still reluctant to provide the longer-term financing necessary for municipal projects. Reasons for this are the banks' limited experience lending to municipalities, inadequate collateral on the part of municipalities, and poorly prepared projects.

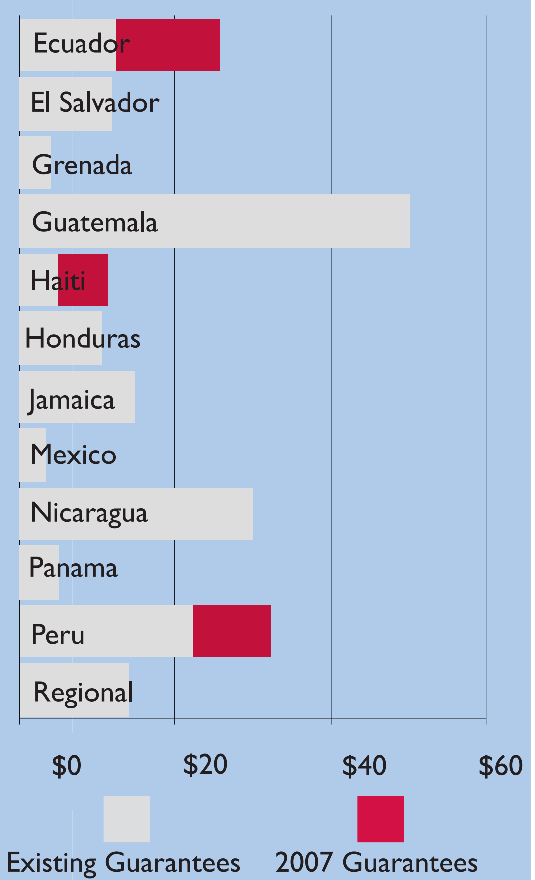
To address this, USAID provided the United Bulgarian Bank (UBB), a privately-owned bank, with a portfolio guarantee. Through this arrangement, the USAID guarantee has mobilized $10 million to finance revenue-generating energy efficiency projects, helping banks familiarize themselves with this new sector. Since the inception of this activity in late 1999, 21 municipalities and related associations have acquired loans to finance energy efficiency upgrades.

LATIN AMERICA AND THE CARIBBEAN

2007 Guarantees

Total Credit Made Available SInce 1999: $213 million

Per country in millions:



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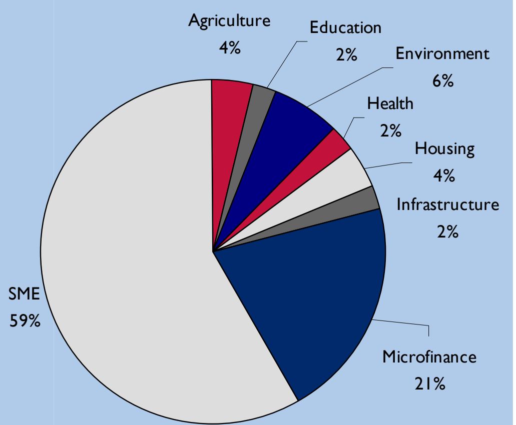


Small Loans in Haiti

Haiti has been beleaguered by political and economic unrest. However, there is much potential for growth, especially among small and medium enterprises (SMEs). To encourage expansion of these businesses, USAID structured a $4 million guarantee for small loans, which will help these growing SMEs diversify their operations. Complementing this guarantee is another $2.5 million guarantee structured specifically for rural microenterprises. Far from services and main roads, these businesses are often perceived by banks as riskier than urban ones, so encouraging banks to move into this sector will demonstrate that investing in rural microenterprises can indeed be profitable. Together these two guarantees will contribute to Haiti's overall growth and stability.

Alternative Development

In order to deter farmers from growing illicit coca, USAID is encouraging the production of legal crops. For decades, the illicit coca industry has threatened Peru with violence and lawlessness, especially in the remote areas of Peru where laws are difficult to enforce. USAID works to improve the situation with incentives for licit farming, and yet access to credit remains a problem for farmers. With a new DCA guarantee, rural farmers will access up to $10 million in financing for equipment, seed, and other inputs needed to expand their businesses and grow crops such as hot peppers, artichokes, bananas, and coffee. In this way, USAID is using private sources of finance to fight the illegal coca production that threatens Peru's stability and prosperity.

Photo: USAID/Sashi Selvendran

Farmers like these in rural Peru will be able to access finance through loans guaranteed by a credit guarantee. The guarantee is part of an overall USAID strategy to combat illicit coca production.

Disaster Recovery

Photo: USAID / Sandra Goshgarian

Kenny Forrester (right) in front of one of the new villas in Grenada that he built with a loan guaranteed by USAID

Photo: USAID / Nancy Leahy

Jenecia Richards in her store in Jamaica that she restocked with financing guaranteed by USAID after Hurricane Ivan

Hurricane Ivan of 2004 had a devastating effect on the Caribbean, especially on the small island nation of Grenada. Grenada's economy is highly dependent on agriculture and tourism, both of which suffered large setbacks after Ivan's damage. To help Grenada's economy recover, USAID/Caribbean teamed with RBTT Bank Grenada Limited to structure a loan portfolio guarantee to mobilize $4 million in loans to borrowers affected by the hurricane. To date, $3.7 million has already been lent to enterprises such as tourism operators, construction firms, and retail, without any defaults. Loan recipients such as Kenny and Gloria Forrester, the owners of Grooms Beach Villas, borrowed money to construct new beachside apartments for locals and tourists, improving the housing deficit and creating employment opportunities. The DCA guarantee is a crucial component of Grenada's post-hurricane recovery and is helping entrepreneurs like the Forresters obtain the financing needed to rebuild their business and contribute to Grenada's economic recovery.

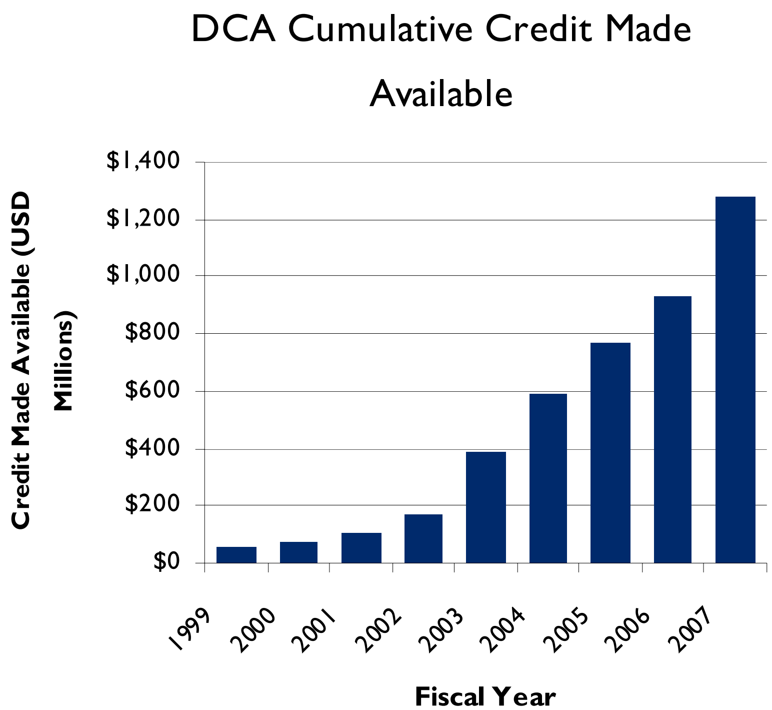
Jamaica is another Caribbean nation that was devastated after Hurricane Ivan. A few months prior, USAID had signed a guarantee with Jamaica National Building Society to guarantee $8.5 million worth of loans for primarily low-income households. Once the hurricane struck, the guarantee was quickly restructured to ensure that loans were available to small business owners like Jenecia Richards, who needed to restock her damaged inventory. In fact, the guarantee was restructured so quickly that loans were disbursed within one week. The terms were structured to ease repayment, and of the more than 500 recovery loans disbursed, almost all have been fully repaid.

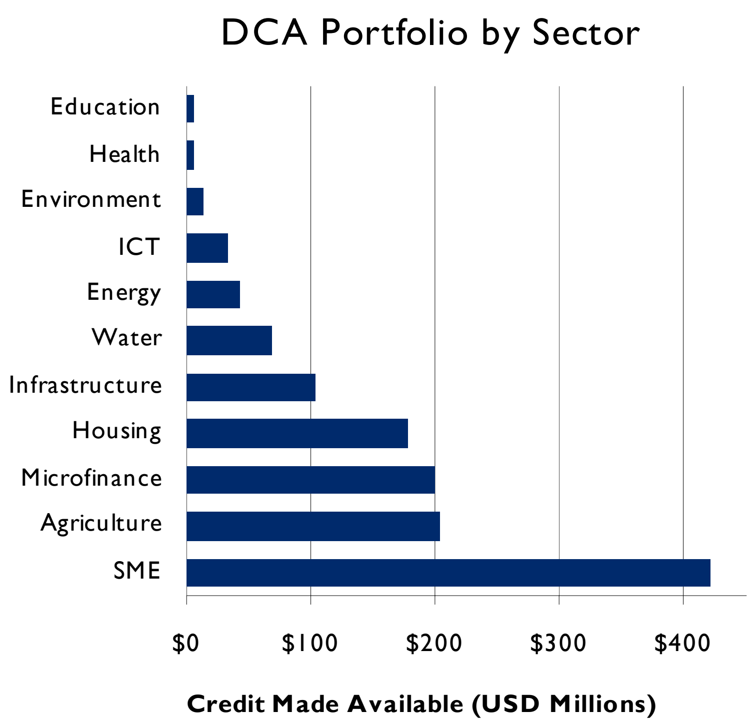
Energy in Costa Rica

Etipres is a Costa Rican company that designs and manufactures a wide range of labels for food, electronic and pharmaceutical products. The company began operations with one labeling machine in 1985, and since then has expanded its operations significantly to include four larger and more efficient machines. One of these machines was purchased two years ago with a loan from Banco Lafise Costa Rica that was supported by a regional $2 million USAID guarantee. The new machines have contributed to the company's increase in annual sales from approximately $1.3 million in 2004 to $2.8 million in 2006. At the same time, Etipres has doubled its staff from 35 to 70 employees. Additionally, the new machines meet internationally-recognized environmental quality standards. The financing made available by USAID has allowed Etipres to simultaneously lower energy costs and increase production, benefitting both the environment and economy of Costa Rica.

DCA Portfolio to Date: 1999 - 2007

In addition to the guarantees in each of the geographic regions, approximately $85 million in financing has been mobilized by four global guarantees, which can be used in any country where USAID operates. In total, nearly $1.3 billion in private financing worldwide has been made available by DCA since 1999. The average leverage ratio of USAID to private sector resources is 1 to 30. To date, all of these DCA guarantees have been utilized above expectations. The low default on these loans proves that while underserved sectors lack credit, it is often due to market asymmetries rather than their credit risk.

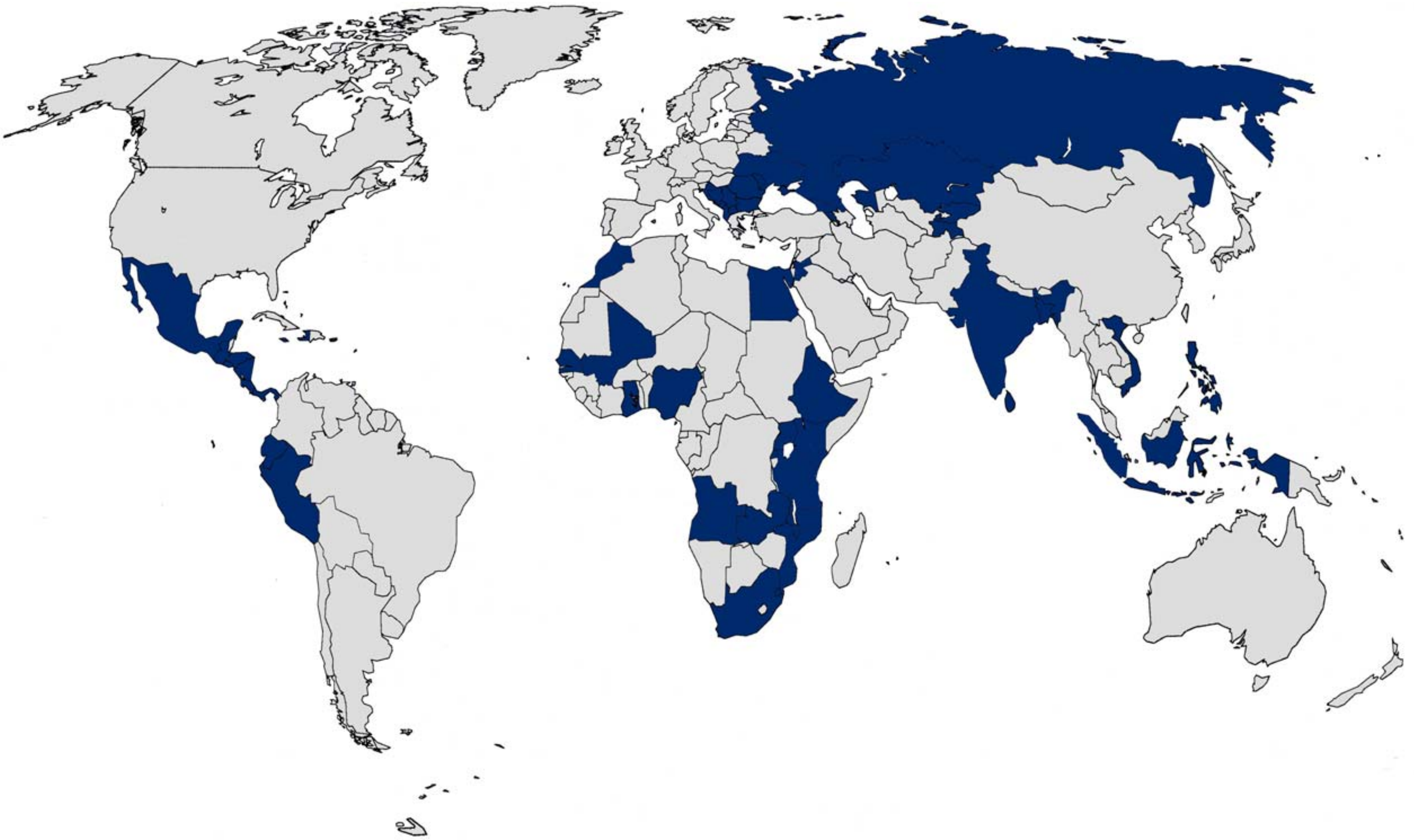




DCA Guarantee Activity in 2007

Country	Sector	Type	Guaranteed Amount	Credit Made Available
Angola	Agriculture	LPG	$3,750,000	$15,000,000
Armenia	SME	BG	1,500,000	9,000,000
Bulgaria	Microfinance	PG	750,000	1,500,000
Croatia	SME	LPG	7,037,500	28,150,000
Croatia	SME	LPG	4,937,500	19,750,000
Ecuador	SME	LPG	2,156,250	4,312,500
Ecuador	SME	LPG	4,468,750	8,937,500
Egypt	ICT	LPG	17,000,000	34,000,000
Ghana	SME	LPG	2,000,000	5,000,000
Global	Energy	LG	750,000	1,500,000
Haiti	SME	LPG	1,500,000	3,000,000
Haiti	SME	LPG	500,000	1,000,000
Haiti	Microfinance	LPG	1,000,000	2,000,000
Haiti	Microfinance	LPG	250,000	500,000
Macedonia	Energy	LPG	1,000,000	5,000,000
Macedonia	Energy	LPG	2,500,000	5,000,000
Macedonia	SME	LPG	1,000,000	5,000,000
Macedonia	SME	LPG	2,000,000	4,000,000
Malawi	Agriculture	LPG	6,500,000	13,000,000
Nigeria	Agriculture	LPG	2,750,000	5,500,000
Nigeria	Agriculture	LPG	2,750,000	5,500,000
Peru	SME	LPG	5,000,000	10,000,000
Senegal	SME	LPG	1,666,666	3,333,333
Senegal	SME	LPG	1,666,667	3,333,333
Senegal	SME	LPG	1,666,667	3,333,334
South Africa	Housing	LG	5,625,000	69,444,444
South Africa	Housing	LG	4,305,556	53,600,000
Swaziland	SME	LPG	12,500,000	25,000,000
Tajikistan	Agriculture	PG	2,500,000	5,000,000
		TOTALS:	$101,030,556	$349,694,444

Countries with DCA Credit Guarantees: 1999 - 2007



U.S. Agency for International Development
Office of Development Credit
1300 Pennsylvania Avenue, NW
Washington, DC 20523

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